

United States-South Asia Economic Policy
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The Centrality of Economic Relationships

I appreciate this opportunity to join you today for a discussion of South Asia. I thought we'd take a few minutes today to talk about foreign policy in South Asia – mostly on economic matters because of the close linkages between energy and economic development – and then follow this up with some Qs and As. I look forward to getting your input on how we can best move forward – you all are the energy experts so I have much to learn from you. Now, you all have a deep interest in and knowledge of the region, as illustrated by your presence here today. In particular, the involvement of the business community with South Asia is closely interwoven with the growing United States' relationship with this critical area. For many of our initiatives in the region, we in the Government are working in partnership with those in the business community. While the leaders of the United States are giving significantly increased attention to the region, interest may be growing even faster for the business community. It is certainly true that positive economic change is of central importance to the momentum for success in South Asia. Secretary Rice's visit within her first two months of taking office indicated her keen and personal interest in seeing this success reach throughout the region. In short, it's an extremely exciting time in an extremely exciting region.

South Asia is of vital and growing importance to the United States and to advancing the President's vision of freedom and democracy, stability and economic growth in the world. The region can be a major contributor to global stability, economic growth and moderation. To do this, however, it must itself be stable; free from terrorism, conflict, and proliferation; prosperous and economically integrated and governed through accountable democratic institutions. Central to achieving all these goals is accelerated long-term economic growth in every South Asian country. There has been some good news on that front, particularly in India, Pakistan and Afghanistan. However, much more can be done in those countries and in the rest of the region. Stimulating this growth is a primary focus of U.S. policy and programs. An economically strong and integrated South Asia will be less vulnerable to extremism, internal unrest and inter-state tensions and provide a more positive environment for democracy. It would also provide an increasingly large market for our exports and attract direct investment by U.S. companies.

Our development programs and those of international financial institutions are designed to encourage growth. Allowing for the differences between South Asian countries, we are urging them all to improve the environment for private sector opportunities. Improved protection for Intellectual Property Rights and other steps to create a more supportive climate for both domestic and foreign investment are of particular importance. Such changes would lead to economic diversification, which will make all South Asian economies more robust and stable.

An area that could see major improvements is trade between South Asian states. The region is the only one in the world where such trade is not dominant. Even on good days, this potential major engine for economic growth as well as improved political relationships is firing on only one cylinder. The result is stifled commerce and enterprise, reduced tax revenues, and another source of tensions and resentments between South Asian countries. American and South Asian business communities can play a role in encouraging change here, by pressing governments in the region to seriously consider new approaches. While the South Asian Free Trade Agreement, SAFTA, scheduled to be implemented in January 2006, may provide a framework or blueprint for change, it has an uncertain time frame for benefits. In the end progress is up to each state, and they need prompting.

Politics impedes growth in other ways as well. We need to help South Asian states overcome bilateral conflicts and tensions, as well as internal political unrest, violence or poor governance. The United States is working with South Asian countries to encourage them to reduce the tensions that divide them (such as India and Pakistan), to resolve their internal conflicts (such as Afghanistan, Sri Lanka and Nepal) and to promote stronger democratic institutions and reduction of political violence (such as in Bangladesh.) We are doing what we can to support South Asian leaders who have shown vision in confronting and trying to settle these problems.

Now let's take a brief look at the 6 major countries in the region one at a time.

India:

This is a watershed year in U.S.-India relations. Prime Minister Manmohan Singh will be coming to the United States in July and President Bush has said he hopes to visit India soon. In her March visit to New Delhi Secretary Rice underscored the importance of developing our ties, as did the visit to Washington in April of Minister of External Affairs Natwar Singh. At the President's direction, we are accelerating the transformation of our relationship with India, with a number of new initiatives to move the process forward. We are engaging in a new strategic dialogue on global security problems, regional issues, defense and expanded high technology cooperation. Later this summer, we hope to announce both a high-level dialogue on energy security, to include nuclear safety, and a working group to strengthen space cooperation. Our defense relationship is expanding and we are revitalizing our economic dialogue. The United States relationship with India and our commitment to develop even deeper political, economic, commercial and security ties have never been stronger.

Our Economic Dialogue initiative is focused on enhancing cooperation in five areas: finance, trade (including high technology), commerce, energy and the environment, and telecom. We are also supporting India as it moves to complete financial, trade energy, water, and agriculture reforms designed to improve economic stability and reduce poverty. To sustain and elevate India's impressive rate of growth, the Indian Government needs to move forward with the next generation of economic reforms. This

would allow pursuit of new opportunities with the United States in a variety of high-tech fields and “sunrise” industries, and would allow Indian consumers a greater choice of goods and services.

As Secretary Rice has said, we see India becoming a world power in the 21st century, and our dialogue with India now touches on broad issues around the region and the world. As you know, India joined the United States as a charter member of the core group of countries formed to coordinate tsunami relief, and played a prominent role in providing immediate aid to affected Southern Asian countries. We are consulting closely with the Indians on how to help the Nepalese resolve their current political crisis, and India has been supportive of the peace process in Sri Lanka.

Pakistan:

Our relationship with Pakistan is grounded in cooperation on a wide range of issues, including fighting terrorism and extremism, building strong relations with a stable and democratic Afghanistan, countering nuclear proliferation and bolstering Pakistan’s own efforts to become a modern, prosperous and moderate state. Our strong relationship is manifested in Pakistan’s outstanding support as a key ally in the war on terrorism, our long term commitment to provide economic and military assistance, our work together on military and social sector reform, and military cooperation. Central to Pakistan’s long-term stability are sound, functioning democratic institutions and parties.

In the last four years, Pakistan’s economy has moved from crisis to stabilization and now to significant growth. Providing the promise of a better future for Pakistanis will be a very important part in the country’s success in overcoming extremism. Pakistan’s large increases in exports have led to record levels of foreign reserves, which make it possible for Pakistan to maintain a stable foreign exchange rate in the face of rising fuel prices. Pakistan’s privatization program has transformed the banking sector and has led to large increases in access to credit.

Expanded economic relations between the United States and Pakistan are important to our overall relationship. We continue to be the largest foreign direct investor in Pakistan, although European, Gulf and East Asian investors are also increasing their stakes in Pakistan. Challenges remain in Pakistan’s investment climate, particularly with speedy resolution of judicial processes. Many investors understand this climate and have been conducting profitable ventures there for years. However, Pakistan needs more foreign direct investment to sustain its high growth rates. The U.S. and Pakistan recently completed the second round of negotiations on a potential Bilateral Investment Treaty (May 10-12). By taking part in these negotiations, Pakistan’s Government is showing that it is serious about moving forward. Concluding a treaty would improve investors’ rights and should increase the foreign direct investment that Pakistan needs to continue its encouraging trend of economic growth. Already, many American companies operating in Pakistan are seeing how profitable it can be.

The United States is demonstrating a strong commitment to assist Pakistan's continued progress toward stability, prosperity and moderation through President Bush's 5-year \$3 billion commitment of assistance, half of which is focused on strengthening Pakistan's economic and social infrastructure. Pakistan has a strong and employable workforce, but the Government of Pakistan understands that improvements at all levels of education will help Pakistan to compete in the increasingly high-tech global economy and U.S. Assistance in education is aimed at assisting those goals. U.S. assistance is also helping develop rural economies through micro-finance by expanding access to credit in areas where credit was lacking and providing graduate level scholarships in business and agricultural sciences.

India-Pakistan:

Of course, none of this would be significant if India and Pakistan could not find a way to get along. Fortunately, there seems to be significant movement in this area over the past few years. Reducing the threat of conflict between India and Pakistan is of critical importance to both countries as well as to the United States and the international community. Just three years ago, we helped walk India and Pakistan back from the brink of war and possible nuclear confrontation. We have consistently encouraged Indo-Pak engagement while working to reduce the tensions between these two countries, and the rapprochement and wide-ranging Composite Dialogue, which has the objective of reaching a peaceful settlement on all bilateral issues including Kashmir, has seen many recent successes. We are encouraged by the confidence-building measures agreed upon in recent months, including the establishment of a bus service across the Line of Control in Kashmir. Nonetheless, a resumption of violence in Kashmir could derail the process. We will continue to watch closely and encourage positive steps. We are hopeful that this warming of relations will continue into the future.

Afghanistan:

Afghanistan is of course still facing serious challenges but it is nevertheless on the road to becoming a moderate, democratic state after a quarter century of conflict. Success there will have positive regional and global impact and the United States is committed to a lasting partnership with Afghanistan. As announced during President Karzai's recent and quite successful visit to Washington last month, our relationship is now anchored in a strategic partnership agreement.

The economic component of this is huge and Afghanistan's economy is rapidly rebuilding. The government implemented a stable new currency in 2002, passed a strong banking investment law in 2003 and adopted a national development strategy that limits spending and boosts revenues. Unofficial IMF/World Bank estimates put annual growth at approximately 15% of GDP last year and project it at 8% this year. International investors are showing increasing interest in Afghanistan. The United States provides assistance in Democracy and Governance, reconstruction, rural development, water, education and health. With the fall parliamentary elections, Afghans will have a national government in place. A central US objective is to help build the capacity of Afghan

leaders and officials so Afghans can increasingly assume functions currently performed by contractors or nongovernmental organizations. The US is seeking to encourage investment and private sector growth by helping the government of Afghanistan to put in place a business-friendly legal and regulatory structure; by participating, with other donors in building key infrastructure; by initiating programs to clarify land title; and by grants that support business associations and private sector capacity building. All of this moves Afghanistan closer to achieving its goal of becoming a land bridge to Central Asia.

Nepal:

Nepal unfortunately ranks among the world's poorest countries with a per capita income of just over \$279. Its poverty is a contributing factor to, although not the cause of, the bloody Maoist insurgency that now affects almost every part of the country. The continuing violence drains budget resources, restricts delivery of services and prospects for socioeconomic development, has prevented the scheduling of elections, and distracts Government from its normal functions. The conflict has cost the already-impooverished country an estimated \$1 billion. The Maoists have specifically targeted businesses, particularly foreign businesses, for extortion and other threats.

Nepal has endured numerous setbacks, which include the King's actions on February 1 of dismissing the Cabinet, declaring a State of Emergency and suspending fundamental rights. Fortunately, some of the restrictions he imposed at the time have since been rolled back, but it is essential that the King's government restore civil and human rights and that the legitimate political parties join it in addressing the insurgency and Nepal's serious developmental problems. Although the King's actions undoubtedly factored into the cancellation of the SAARC summit, we remain hopeful that regional talks will continue.

Sri Lanka:

In Sri Lanka, struggling to recover from the devastating Tsunami disaster and resolve a bloody 15-year ethnic conflict, economic reform remains a priority. The Government needs to return to the schedule of privatization, reduce barriers to trade, increase transparency and decrease red tape to encourage foreign investment. This is of more than theoretical importance. Sri Lanka's eligibility for a Millennium Challenge Account could be put in jeopardy by backsliding on economic reform, thereby jeopardizing any additional aid they might receive. While the objective of the MCA is poverty reduction, its driving principles are that just rule, investing in people and economic freedom contributes to economic growth and prosperity.

Turning to the tsunami for a moment, I don't need to rehash the devastation but I will say that it's encouraging that immediate relief needs have been met and that the government is now focusing on reconstruction. The response of the U.S., as well as the entire international donor community, illustrates our continued commitment to the people of Sri Lanka.

The United States is also a major customer for Sri Lanka's export industries. Sri Lanka's exports of apparel face increasing competition, but I understand that some production is actually moving to Sri Lanka from other countries. This is a clear signal of how vital it is that Sri Lanka continues to embrace economic reforms. Expanding trade will offer new opportunities to young Sri Lankans in globally competitive industries.

Bangladesh:

Bangladesh's functioning, albeit challenged, democracy has achieved important economic growth. Nevertheless, the country's significant problems with corruption, the increase in violent political attacks, poor governance, and "hartals" (or general strikes) threaten democratic stability and impede economic growth. Poverty, lack of education and endemic corruption combined with porous borders and lack of public confidence in elected officials have increased the appeal of radicalism.

We seek to support Bangladeshi efforts to increase the accountability and transparency of democratic institutions and support civil society advocacy groups such as Transparency International Bangladesh. A meeting of donors here in Washington in late February agreed on the importance of finding more effective ways to support Bangladesh in improving governance. The donors also agreed to consult on how to help Bangladesh conduct free and fair elections when they are next held in 2006 or 2007.

Conclusion:

So all of this naturally raises the question of how does regional energy and the important work of SARI-Energy fit into all of this? Well, in one sentence, regional energy cooperation is the driving factor behind all of this.

This U.S., as well as South Asian governments, are realizing that securing their energy sources – thereby ensuring long-term energy security – is of growing geopolitical importance. It's well known that without such energy security, these countries will inevitably fall behind the ambitious economic projections I've outlined here. Using India as an example – energy demands are projected to increase significantly over the next few years and the GOI is making a significant push to secure these long-term demands. Achieving this will allow India to continue its impressive economic growth and as it does, it will pull the other economies in the region with it if proper integration can be achieved. The United States can help India to achieve this security and integration, as well as steer it away from countries of concern and to greater cooperation with suitable partners.

Much like Europe in the aftermath of WWII, energy cooperation can be the key to greater regional economic growth and improved political stability. Success in South Asia has become critical to the United States for reasons ranging from winning the war on terror to building freedom and democracy to enhancing global stability. Improving standards of living by accelerating economic growth is key to achieving our goals in the region. We know this can be done. In many places throughout the region it is being done now. But

there is much room for improvement. And, in the end, growth and prosperity will be generated by people like the folks right here in this room. Thank you very much for your time. I'm happy to take your questions and hear your suggestions about how we should proceed.